



Commercial Viability Report

**Land to the rear of 11-15 South Street
Havant
Hampshire
PO9 1BU**

Prepared by

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1.0 INTRODUCTION

- 1.1 Sturt & Company has been requested to provide a Commercial Viability Report in connection with the redevelopment of land to the rear of 11 – 15 South Street, Havant, Hampshire, PO9 1BU. This is in connection with the proposed residential redevelopment of the site for 17 dwellings which has been submitted by PDP Architecture on behalf of JNP Developments & Investments Ltd.
- 1.2 The report addresses the following areas:
- Description of the buildings and analysis of their construction
 - Suitability of the premises for modern employment occupiers
 - Supply and demand of commercial accommodation in the region
 - Economic benefits of the proposed development

Extent

- 1.3 Please note that this report and its appraisals have been prepared in respect of planning purposes only and do not constitute a formal or RICS Red Book Valuation for funding or other purposes.
- 1.4 The report is not suitable for, nor can it be relied on or used for mortgage, funding purposes or future planning applications. Please note there should be no third-party reliance on this report and is solely for this planning application.

2.0 QUALIFICATIONS

- 2.1 My name is Richard Sturt and I am a Member of the Royal Institution of Chartered Surveyors and have been active in the national development market for over 22 years. Key clients have included the Homes & Communities Agency, Zurich, several charities and Local Primary Care Trusts.¹ I am a RICS Registered Valuer and assess candidates for the RICS Planning and Development Faculty in the role of Chair of the APC panel.
- 2.2 I hold a degree in Real Estate management and am a Fellow of the Royal Geographic Society. Prior to setting up Sturt & Company I worked for Savills in their National Mixed-Use Development team. I also worked for the King Sturge Commercial Agency Team and before this I worked for several years

¹ Now known as I.C.Bs.

for Heritage Property Group specialising in historic town centre regeneration schemes across the country.

3.0 METHODOLOGY

3.1 The property is under the aegis of the Havant Borough Council in terms of planning policy, although we have used regional research including research from the Partnership for South Hampshire. (PfSH)².

3.3 There is a considerable amount of background research into the employment land market based on both a micro and macro scale. This includes the following:

- Havant Employment Land Review, Update Report published by Stantec May 2021
- Economic, Employment and Commercial Needs (including Logistics) Study, final report March 2021³
- Havant Employment Land Review published by LSH, 2019⁴
- Local Plan and CIL Viability Study Final Report, published January 2019
- 2015 Homes and Communities Agency Employment Densities Guide
- VOA Database

3.5 This assessment of Economic Viability follows the Residual Valuation method in accordance with the RICS Guidance Note: Assessing Viability in Planning under the NPPF 2021 for England (published March 2021). It has also been carried out in accordance with the National Planning Practice Guidance for assessing viability in planning applications.

E Use Class Order

1.5 Since September 2020 many of the commercial uses are now covered by Use Class E which subsumes many of the historic retail, commercial and community uses found in town centres including GP surgeries and creches. For the sake of clarity, we still refer to the historic B1 to B8 Use Classes in identifying market demand and uses for the site.

4.0 PROPERTY LOCATION

² PfsH is an umbrella organisation of 12 Councils in the Solent region.

³ Published by PfSH.

⁴ Published by Dixon Searles Partnership

- 4.1 The property is located in Havant which is located between Portsmouth and Chichester.
- 4.2 Havant has a well-established retail centre, focused on the Meridian Centre and the adjoining North and West Streets. In addition, it has two edge of centre retail parks. The Central Retail Park is located just north-east of the main retail area whilst Solent Retail Park is located just to the south-west. Both schemes provide a good range of retail units together with Tesco and Aldi supermarkets.
- 4.3 Havant has a well-established commercial market with the two principal end industrial estates, one adjacent to the M27 to the south-west of the town centre with the other to the north-east of the town centre focused on New Lane and Bartons Road.
- 4.4 The site is in St Faith's Conservation Area to the south of Havant town centre with the main retail pitch approximately 200m to the north including the access to the Meridian Centre. The property is located on the junction of South Street and Twittens Way close to The Old House at Home pub.
- 4.5 Originally, the site was a small local brewery⁵ but this shut in the 1880s and during the twentieth century many of the buildings were redeveloped and used for alternative purposes.

Transport links

- 4.6 Havant has access to the national road network at the junction of the A3M and A27. The A3M provides predominantly dual carriageway access to London 64 miles to the north-east. The A27 provides dual carriageway access to Chichester in the east and the M27 at Portsmouth to the west. The M27 then links to Southampton and the M3 approximately 24 miles to the west.
- 4.7 The site has good access to public transport networks with a number of bus services in the locality giving access around Havant and to nearby centres. Havant has a mainline station and it provides a direct service between Portsmouth and London Waterloo with the fastest journey time to London Waterloo of approximately 1 hour 17 minutes. In addition, it is on the Brighton to Cardiff route that stops at Southampton.
- 4.8 Approximate distances to the following locations are as follows:
- Portsmouth 7 miles
 - Fareham 11 miles
 - Chichester 11 miles
 - Petersfield 14 miles
 - Southampton 22 miles

⁵ Glyne Brewery shut in approximately 1880.

- 4.9 Due to the layout of the street, it is not suitable for large commercial vehicles or HGVs to access the site. This is further compounded by the height restriction of the covered archway.

5.0 PROPERTY DESCRIPTION

- 5.1 The site is approximately 0.164 ha (0.405 acres) in size and is irregular in shape. There are a number of commercial buildings together with hardstanding used as car parking. See **Appendix 1** for annotated photographs of the buildings.
- 5.2 The site is very restricted with other residential and commercial properties in close proximity. The only vehicular access to the site is via a narrow and restricted height archway. The rest of the site is made up of concrete and hard standing which is used for the parking of vehicles by way of separate arrangements. Some of the current uses of the units are incompatible with their town centre location and proximity of nearby housing.
- 5.3 Many of the structural problems facing these buildings can be seen from a visual inspection but it is also important to look at their structure from their rear elevations on Twittens Way where it is clear that they have significant problems. These physical failings, which cannot be overcome and reflect that they are coming to the end of their economic lives.
- 5.4 Set out below is a schedule of accommodation for the building which has been assessed in accordance with the RICS Code of Measuring Practice.

Description	Sq M	Sq Ft
15B South Street, Havant		
Ground floor internal storage	1.6	17
Ground floor workshop	30.2	325
First floor office	55.5	597
15C South Street, Havant		
Ground floor workshop	208.36	2,243
First floor workshop	132.96	1,431
Land behind 13 South Street	131.53	1,415
Total	560.15	6,028

Land behind 13 South Street

- 5.5 This unit is a single storey workshop which is effectively an infill between some lock-up garages, the perimeter wall and unit 15c. It has a pitched asbestos and metal profile roof and is currently being used for vehicle maintenance

purposes. Part of the property contains a series of converted lock up garages with wooden doors and an asbestos roof. One of these has also been partially converted to provide a small office. The property is suffering from a significant number of structural defects including cracking and deformation to the walls. See photographs 3, 29, 48 and 49.

- 5.6 The property is unsuitable for modern commercial purposes and it effectively converted lock up garages that can only be used for very basic storage. There are a number of vehicles stored on the hardstanding which have been there for a considerable time and are effectively abandoned.
- 5.7 The services to the unit including the electricity are completely outdated and require replacing to meet modern safety standards.

Unit 15C

- 5.8 15C is a two storey warehouse constructed in the 1930s and is currently occupied by a furniture company. It has brick elevations with a metal roller shutter door together with a secondary loading door at first floor level that is not in use. It is clear from our inspection that there are significant structural failings including cracking at ground and first floor level which is probably due to the poor construction of the building and the unsuitability of some of the structural elements. For example, the main lintel supporting the roller shutter door is wooden and is insufficient for its purpose.

15B

- 5.9 15B is a small office that was constructed in the early twentieth century. It has been extended and converted several times and currently being used as a print works by a local company. Under the terms of the lease the unit has no car parking.
- 5.10 The building is of brick construction and internally, the property is modular and has been subdivided into a number of smaller rooms and stores. The specification is fairly basic and does not reflect modern occupier demand.

Building Observations

- 5.11 The buildings are approximately 100 years old and have reached the end of their economic lives.
- 5.12 From an internal inspection the buildings are very fragmented, including a number of sub-divided areas. Parts of their construction are temporary in nature and unsuitable for modern occupation. The layout is not compatible with the demands of modern occupiers who are looking for flexible, open-plan, energy efficient premises.
- 5.13 Set out below are preliminary observations of some of the defects. See **Appendix 1** for photographs of the properties:

- The buildings have single skin brick elevations and no cavity walls. They have effectively have no thermal insulation.
- Asbestos have been used and this will limit the cost-effective maintenance and refurbishment of areas.
- Due to the roof structure and failure of the parapets there is evidence of water penetration into the building, wooden joists/lintels and side elevations.
- The ground level damp proof course is insufficient to prevent water penetration and there is damp in various locations around the buildings.
- The roof coverings have failed in several places resulting in water damage.

2010 Equality Act and Disability Discrimination Act

- 5.14 The subject buildings are not compliant with the provisions of the Equality Act 2010 formerly the Disability Discrimination Act (DDA). The future occupation by tenants or refurbishment of the buildings will have to address these shortcomings at significant cost.
- 5.15 In order to comply with the Equality Act 2010⁶, extensive works on repair and conversion would be necessary.
- 5.16 Some of the issues:
- Widening of internal doors and ramps for wheelchair access
 - Utilities and services to be accessible to all staff
 - Replacement of non DDA compliant WC and services
 - Non-compliant CIPSE lighting and services
 - Lift to first floor accommodation

6.0 ENERGY ACT 2011

Minimum Energy Efficiency Standards

- 6.1 The buildings do not comply with the latest energy legislation. In April 2018, the Energy Efficient Regulations (referred to as the Minimum Energy Efficiency Standard or MEES) came into effect making these assessments compulsory. Due to their age, lack of insulation and coming to the end of their economic life it would not be possible to comply with the new standards.
- 6.2 An EPC gives information on the building's estimated energy efficiency in a sliding scale from A to G. An EPC is an essential requirement for letting and

⁶ The Equality Act 2010 replaces the Disability Discrimination Act 1995.

the landlord is responsible for them. Since April 2018 it has been illegal for any landlord to let a building on a new lease, lease extension or lease renewal with grades F and G.⁷ the standards will be increasing and by 2030, all properties will need an EPC rating of B or above.

- 6.3 Consequently, if any property is to be converted now, there is little commercial advantage seeking to achieve only an E grade, as further additional works will be required to meet the enhanced requirements.
- 6.4 Although the MEES legislation has only recently come into effect, it has already had a bearing on the commercial property market. Occupiers are unable to take buildings that fail, but they are also reluctant to accept buildings that have an EPC that is close to a fail. This is due to the risk that future reassessments will produce a lower assessment preventing a subletting or assignment without improvement works.
- 6.5 Due to their poor constructions and lack of any insulation the buildings cannot achieve a rating that enables long term occupation. Because of the enhanced requirements due by 2030 the buildings are becoming obsolete.
- 6.6 In the current economic climate, employers and occupiers seek to mitigate and reduce ongoing costs of occupation. The cost of heating a poorly insulated building will be an important consideration for any occupier. Clearly, poor insulation will increase the cost of occupation significantly, due to the recent rapid increase in fuel costs. Occupiers will compare this with more modern buildings and reject these buildings because of the elevated cost of occupation.

7.0 ASBESTOS

- 7.1 The buildings have been constructed using Asbestos Containing Materials throughout. This includes the roofs, floor coverings, services and even elements of their main structure.
- 7.2 The presence of asbestos may have serious health implications for occupiers and specialist advice must be taken by a qualified contractor.
- 7.3 The cost of replacing/upgrading services, subsequent minor works or any subdivision will have to take asbestos into account and will require the correct Health & Safety procedures to be followed. This will mean additional abnormal costs together with certified removal to adhere to the Health & Safety legislation. This is a very costly approach to adapting buildings and one that commercial occupiers would seek to avoid.

⁷ Although only F and G band buildings are currently illegal to let, the government made it clear that they intend in the future to raise requirements for buildings so that further grades will move into this category. The matrix for assessing a building's efficiency is becoming more accurate and when a building is reassessed, it is not uncommon for the rating to fall below the previous grade.

8.0 PLANNING POLICY

National Planning Policy

- 8.1 The key thrust to the revised NPPF is to increase the delivery of housing with a greater emphasis on using formerly developed land, such as this site.
- 8.2 Paragraphs 119 to 125 of the NPPF highlight the importance of the reuse of brownfield sites. This underused site is not required in the light of the changing requirement of occupiers and pipeline of employment land being delivered. Paragraph 119 states:

*“Planning policies and decisions should promote an effective use in meeting the need for homes and other uses, while safeguarding and improving the environment and ensuring safe and healthy living conditions. Strategic plans should contain a clear strategy for accommodating objectively assessed needs, in a way that **makes as much use as possible of previously-developed or brownfield land.**”*

- 8.3 The proposed redevelopment is an example of an underutilised brownfield site being used to help deliver housing.
- 8.4 Paragraph 123 of the 2021 NPPF states:

*“Local planning authorities should also take a **positive approach to applications for alternative uses of land which is currently developed but not allocated for a specific purpose in plans, where this would help to meet identified development needs.** In particular, they should support proposals to:*

a) use retail and employment land for homes in areas of high housing demand, provided this would not undermine key economic sectors or sites or the vitality and viability of town centres, and would be compatible with other policies in this framework;”....

- 8.5 There is a clear need for housing in Havant and the proposed scheme is in line with the NPPF.
- 8.6 The site and the buildings contribute very little to the economy and in fact significantly detracts from nearby properties. When assessed in the context of central government policy, it can be seen that there are no strong economic reasons to protect this derelict site.

Local Plan Policy

- 8.7 The property falls within the jurisdiction of Havant Borough Council whose core policies are set out in the Havant Borough Core Strategy 2011 and

Havant Local Plan (Allocations) 2014. The principal policy that has relevance to employment is DM3.

DM3 Protection of Existing Employment and Tourism Sites

1. The change of use or development of land or premises currently or last used for B use class employment purposes to non-B use class employment will only be permitted where it has **been demonstrated that the land or premises are not fit for purpose and financially unviable for B use class purposes**. Where it is clearly demonstrated that the site is no longer suitable for B use class employment, other types of economic development should be considered in the first instance. These uses will be expected to provide employment opportunities of similar quality and quantity as those which previously existed. Only if another type of economic development cannot be found which provides similar quality and quantity of employment opportunity, will other uses then be considered.
2. The change of use or development of land or premises currently or last used for tourism purposes to non-tourism uses will only be permitted where it has been demonstrated that the land or premises are not fit for purpose and financially unviable for any tourism use. For both employment and tourism sites this shall be demonstrated through an active and exhaustive marketing process covering at least 18 months for a major site and 12 months for all other sites.

For both employment and tourism sites this shall be demonstrated through an active and exhaustive marketing process covering at least 18 months for a major site and 12 months for all other sites. In all cases the marketing process requires as a minimum:

- i) Confirmation by the marketing agent on headed company paper that the premises were appropriately and extensively marketed for the required length of time as set out by the council.
- ii) Dated photographs of marketing board/s of an appropriate quality, size, scale, location and number, during this time, on the premises.
- iii) An enquiry log, how it was followed up and why it was unsuccessful.
- iv) A copy of all advertisements in the local press and trade journals (should be at least four weeks' worth of advertisements spread across a six month period).
- v) Evidence of marketing via the internet.

- 8.8 It is clear from the inspection of the individual buildings that they are no longer suitable for employment use and have reached the end of their economic life. Many of the buildings' defects cannot be remedied and show the age of the buildings and that they should be no longer occupied. The buildings are no longer fit for purpose.

- 8.9 Whilst the units are currently being used by commercial occupiers and there are approximately 6 full and part time members of staff on the site, it is only a matter of time until this use is extinguished due to the aged buildings and the safety implications. The proposed redevelopment of the site reflects the natural progression and regeneration of this brownfield asset.
- 8.10 Set out in Section 13.0 of this report, are development appraisals which show that the redevelopment of this site for other employment purposes would be unviable. Whilst the buildings are currently occupied, it is clear that they are sub-standard and do not reflect the current Health and Safety, energy compliance and other Statutory Requirements for modern occupation. It is only a matter of time until they become vacant and they would not be suitable nor allowed to be occupied by another tenant.
- 8.11 Whilst Criteria (i to v) sets out the marketing requirements for properties such as this, the buildings would not comply with energy compliance and thus, would be illegal to market in the future. This shows that effectively, they have come to the end of their lives and require complete replacement.
- 8.12 Unfortunately, due to the unviability of development in this location, it would not be possible to construct new offices as they would make a financial loss. At the time of publishing the Adopted Local Plan, the energy compliance standards that prohibit the marketing and occupation of units such as this had not been introduced. It would not be appropriate to use any market testing for these buildings even if they were empty.
- 8.13 The viability evidence contained in Section 13.0 of this report confirm that it is unviable as an alternative business use. This is compounded by the poor access for commercial vehicles and the structure of the buildings which are not suitable for modern occupation and need to be demolished.
- 8.14 Considering the relatively poor performance of Havant's commercial property sector and the site's peripheral location, the reuse of this poorly located site with obsolete buildings will not harm the local economy. There is ample accommodation available in the town centre and it could be better for the town to concentrate on filling employment units in the town centre as opposed to creating additional units away from the town centre which will have less effect on the vitality of the main area.
- 8.15 The redevelopment of this town centre site for residential dwellings reflects the direction of travel of Central Government policy due to be introduced over the coming legislative period. These reforms will seek to encourage town centre regeneration and allow the conversion of outdated buildings to meet the housing crisis.

9.0 HAVANT EMPLOYMENT LAND STUDY 2019

- 9.1 The Local Authority employed LSH and Stantec to undertake an analysis of the supply and demand for employment land across the area. The latest

research was the Havant Employment Land Review Update Report which was published in May 2021. It identified that there would be muted demand for the uptake of new employment land especially following Covid-19 where organisations sought to use what accommodation they had or encourage their staff to work from home.

“The PfSH work would warn that this is an aspirational number because, setting aside Covid, the office market has generally struggled to deliver new space across South Hampshire. This is reflected in very few office completions seen in Havant in recent years. Rather than take new space, occupiers had been refurbishing and making better use of older stock.”⁸

- 9.2 The long term poor performance of the office market was clearly identified by LSH where even before Covid-19 there was little uptake in the delivery of new offices.

“It is no secret that the office market has continued to struggle post 2016. The early ‘signs of optimism’ noted by LSH did not translate into built development. This applies to Havant Borough but also, outside a small number of successful office market, more generally across the UK.”

“There is unfortunately little sign the market will improve in the short term”⁹

“In 2016 LSH noted that the office market remained weak, but was also showing some signs of optimism. On this basis a relatively modest need - 28,000 sq m 2016-36 was identified.

- 9.3 Across the whole borough, there is a relatively small need of approximately 28,000 sq m of office requirement for the entire plan period of 2016-2036. Based on the sites with planning permission or are allocated, it is possible to see if there are enough committed employment opportunities to satisfy the need.

⁸ Havant Employment Land Review Update Report, Stantec May 2021, para 3.36.

⁹ Havant Employment Land Review Update Report, Stantec May 2021, paras 5.14, 5.15, 5.16.

Table 5.1 Demand supply balance

The demand supply balance	Sq m net
DEMAND 2016-37	86,919
Delivered 2016-20	17,233
Demand 2020-37	69,686
SUPPLY	
Pipeline permissions (recent completions /unimplemented permissions)	8,837
Permissions included in submission Plan Table 3 (all schemes included in schedule at Appendix A)	5,977
Former Colt Site (allocation H35)	2,860
Allocations	56,070
Interbridges West, Emsworth	-
Brockhampton West/ Solent Distribution Park	20,000
Land east of A3M/Hulbert Road	6,250
Former BAe Systems/Waterloo Park	29,820
Established employment areas (pol C1)	14,825
Langstone Technology Park	12,575
Former Gas Holder Site	1,250
Northney Marina	1,000
Pipeline permissions (additional to the above)	2,860
Total supply	79,732
BALANCE (Total supply minus Demand 2020-37)	10,046

Source: HCC, HBC and Stantec analysis

*“The table below summarises the demand at March 2020, which is approximately 70,000 sq m, against which the elements of supply – permissions (including the former Colt site) allocations and opportunity within the Established Employment Areas totals to approximately 80,000 sq m, meaning **a there is a marginal surplus of approximately 10,000 sq m.**”¹⁰*

- 9.4 As you can see from above, even before the reduced demand from Covid-19, there was already a marginal over supply of sites of approximately 10,000 sq m for the period. This will be further compounded by the change in demographics and working practices which now see more staff working from home either on a permanent or flexible basis.
- 9.5 Much of the Local Authority’s employment land research including ELR is based on outdated employment densities that no longer reflect current working practices. It is expected that these were to be reassessed, far less employment land would be required in order to deliver the same number of jobs. The majority of demand within the industrial/warehouse sector is from warehouse occupiers who seek accommodation located away from housing to reduce the potential for complaints from residential neighbours.

¹⁰ Havant Employment Land Review Update Report, Stantec May 2021, para 5.80.

Dunsbury Farm

- 9.6 Dunsbury Farm is a major employment location in Havant which can provide a large proportion of the Local Authority's target for employment land. However, it has not been fully included in the ELR assessment of sites. According to the Local Authority's analysis, it had been completely removed from their Supply/Demand Analysis due to its linkage with the proposed Solent Freeport. Nevertheless, this site is a major employment allocation with the Local Authority area and is currently capable of delivering up to 42,584 sq m (458,375 sq ft). These units have not been included within the analysis of employment land in Havant and they would significantly increase the oversupply of employment land by 53%.

10.0 ECONOMIC VIABILITY OF THE UNIT

- 10.1 Many of the buildings are now approximately 100 years old and have reached the end of their economic lives. The buildings were never constructed as a purpose built warehouse or office and no longer reflects the specification and the Health and Safety requirements of continued occupation. Likewise, the buildings are completely lacking in modern facilities including WCs, kitchen and insulation making them unsuitable for modern occupiers. Many of their current uses are incompatible with the nearby residential dwellings that overlook the site.

Industrial

- 10.2 Although there is demand in the industrial/warehouse sector, the majority of demand is for large modern high eaves units within Class B8, with a decline in demand for industrial (Former Class B1c) and general industrial (Class B2).
- 10.3 It should be noted, due to the poor road layout, residential neighbours and restricted height, the site is unsuitable for warehouse operators. Although many former industrial buildings can be used for Class B8 warehousing, due to its location and configuration, this site is completely unsuitable. Consequently, the property is likely to become increasingly unsuited to the market.
- 10.4 The subject site is in the town centre and is always going to be less attractive to warehouse operators by comparison to units on established business estates on the outskirts of a town. The location has the additional disadvantage of being close to residential dwellings and can only be accessed by a restricted height archway.
- 10.5 Warehouse operators are increasingly operating over an extended working day, often on a 24 hour, 7 days a week basis. This makes the location in a town centre with surrounding residential properties completely inappropriate as there will inevitably be conflicts with neighbours due to vehicle movements

throughout the night, particularly if they use forklift trucks due to the requirement for audio warning when vehicles reverse.

- 10.6 In summary, the buildings are very poor and completely unsuitable for modern occupiers particularly from where the majority of demand is coming from.

11.0 DEMOGRAPHICS AND ONS STATISTICS

- 11.1 There are a number of relevant demographic statistics which show the evolving nature of the employment market both in terms of workforce and technology. These trends will continue to reduce the need for employment land across the region.
- 11.2 Over the last decade there has been a significant change in working practices with flexible working and homeworking becoming popular and accepted practise. This is explained by many socio-economic factors such as flexible and part time contracts and broadband technology which has enabled employees to work remotely.

Flexible Working

- 11.3 There are a number of studies which show the evolving nature of the employment market both in terms of workforce and technology. These changes have been rapidly accelerated by the impact of Covid-19. Taken together, these trends mean that less employment land is required than forecast in the Council's employment research which predates the pandemic.
- 11.4 At the same time, there have been fundamental changes in the commercial property sector with significant decreases in the amount of space used per office employee as companies have sought to reduce costs. According to the latest HCA Densities Guide office densities have increased further. Flexi-working, hot-desking and remote working have all compounded these changes. Even before Covid-19 it was estimated that densities fell from 19 sq m per office employee to less than 12 sq m. This is a reduction of 37% in the amount of space required for each office worker. This has resulted in significant decreases in employment space requirements as more workers can be fitted into smaller spaces. The HCA Densities Guide States:

*"For example, the shift towards flexible working is driven by enhancements to wireless connectivity, which is now much more reliable and able to provide much higher bandwidths. This allows more agile working, lessening the need for many workers to have a 'fixed desk' and therefore reducing under-utilisation of space."*¹¹

- 11.5 Since COVID firms have been surprised by how successful home working has been with many employees not returning to traditional offices or mode of working. Already many firms have published new working models resulting in

¹¹ See Section 3.20 of the Employment Density Guide 2015.

substantially reduced office requirements for the same number of employees. The trend is expected to accelerate with a reduced demand for office accommodation.

- 11.6 Due to the increase in employment densities and home working following Covid-19, even less employment space will be required in the future. This will allow firms to downsize their premises and allow growth in the sector. Likewise, many small existing firms can work effectively from home or from remote locations with access to WI-FI.
- 11.7 There is a clear move towards an increase in people working from home either on a regular or permanent basis. The statistics range from between 14.5% (ONS Dataset for Havant QS701EW) and 16.4% in the South East.¹² Since Covid-19, approximately 14% of employees work exclusively from home. Based on the above statistics and on the 17 units, approximately 4-5 residents would work from the proposed dwellings.
- 11.8 Even before Covid-19 there was a clear trend towards an increase in people working from home, and the prevalence of homeworking was not adequately reflected in the 2019 Employment Land calculations. Flexible working and the ability to work remotely, either from home or elsewhere, has allowed more staff to work in the same space.
- 11.9 There is a continued transition to hybrid working with staff working from home for part of the week. This will mean that firms can save costs by reducing their overall office footprint as fewer staff have to be accommodated at any one time. This will mean that firms will shed some of their office accommodation as less space will be required in order to employ the same number of people.
- 11.10 According to the Industry of Employment Statistics provided by the ONS, only 24.2% of the total employees in the Local Authority District work in jobs that would be suitable for the warehouse unit. This means that approximately 74.6% of the total employees in the region do not have the skills or work in other sectors, such as tourism, public health or education. See **Appendix 3** for a summary of the statistics.
- 11.11 Due to the above demographic factors this will mean less employment land is required and the proposed change of use will have no impact on the local economy.

Covid and the Cost of Living Crisis

- 11.12 The outbreak of the Covid-19 pandemic in 2020 has engendered systematic change in office use with many workers continuing to work from home or in a hybrid pattern. At the time of writing, it is unclear how much the long-term effect will be on the reduction for office demand as companies review their accommodation and reduce costs by jettisoning unneeded accommodation.

¹² See ONS data for the South-East.

- 11.13 Therefore, due to this unprecedented and fluctuating situation, we reserve our position on the viability of the scheme, especially in the light of future events and costs associated with the scheme.

12.0 CIL VIABILITY STUDY

- 12.1 In line with the Local Authority's own research and common industry standards, I have mirrored the Local Authority's area wide modelling assumptions together with my professional opinion following research into the site specific market.¹³
- 12.2 The level for many of the costs, inputs and other variables mirror the Local Authority's own assumptions which they used in their area wide assessment and published in Havant Borough Local Plan Viability Assessment 2013 prepared by BNP Paribas and the more Local Plan and CIL Viability Study prepared by Dixon Searle as at January 2019.
- 12.3 Since the publication of this viability report in 2019, the commercial development sector has worsened with significantly higher interest rates and inflationary build costs. This would make the assessment of the schemes even worse. We have reflected on many of the development appraisal assumptions in the CIL Viability Study in our own assessment of the potential of the site to be redeveloped in the future.
- 12.4 The redevelopment of this site for commercial purposes is not supported by the Local Authority's own research. Havant published their Local Plan and CIL Viability Study in January 2019¹⁴ which found that almost all commercial and community uses were unviable and incapable of supporting any CIL payments. The full findings of the assessment can be found in the CIL Study including Appendix 1 which ran a series of development appraisals that all showed a deficit for the construction of commercial schemes. Set out below are some of the key findings of this study:

*"Unfortunately, it is necessary to acknowledge that, particularly when viewed in terms and using assumptions appropriate to strategic level local authority viability work, **viability form many such forms of development looks likely to remain challenging.**"¹⁵*

*"In common with our and others' typical findings across similar assessments covering a wide range of areas, we have found **office developments insufficiently viable to support CIL charging.**"¹⁶*

"Although we regard Havant Borough as a more established location for such uses compared with offices, again based on researched assumptions appropriate for the assessment purpose these appraisals

¹³ This also reflects recent decisions by the Planning Inspectorate and NPPF Guidance.

¹⁴ Published by Dixon Searle Partnership.

¹⁵ Havant Borough Council, Dixon Searle Partnership, Local Plan and CIL Viability Report, paragraph 3.10.5.

¹⁶ Havant Borough Council, Dixon Searle Partnership, Local Plan and CIL Viability Report, paragraph 3.10.52.

*are **some way short of displaying viability outcomes sufficient to support CIL charging.***¹⁷

13.0 COMMERCIAL VIABILITY

13.1 It is possible to test the criteria set out in the Local Plan Policy DM3. The hypothetical development appraisal showing the redevelopment of the scheme in the future for employment uses can be undertaken to show whether the site would ever be redeveloped. The employment market is made up of two principal sectors: offices (formerly Class B1a) and industrial/warehousing (Class B1c, B2 and B8). These uses have now been partially merged in 2020 as Use Class E, which includes the former classes B1a, B1c and A1 – 3 retail uses and some community/sports uses, but we still refer to old Use Classes in this report.

13.2 Set out below are the key appraisal assumptions.

Assumption	Sturt & Co Inputs	Comments
BCIS Office Build Cost	£235.32 sq ft	Latest Mean BCIS adopted July 2023
Developer Profit	20% on GDV	
Finance Cost	8.75%	UK Interest rates have now risen since publication of LA Evidence Base
Marketing Budget	15% of lease	Joint agent
Build Cost Contingency	5%	Reflects restricted nature of the site and brownfield status
Professional Fees on construction costs	8%	
Planning and Application Fees	£35,000	Estimate
Externals	10%	Below normal level as high site coverage
Investment Yield	8.5%	
GIA	1,285.5 sq m	
Demolition	£35,000	
Asbestos Removal	£50,000	

13.3 Our calculations do not take into account the following:

- Rental voids such as rent free or marketing periods between leases
- Empty Business Rates and other holding costs

¹⁷ Havant Borough Council, Dixon Searle Partnership, Local Plan and CIL Viability Report, paragraph 3.10.55.

- 13.4 Please note that the factors above would significantly reduce the value of the site further and would mean that no commercial developer or investor could possibly deliver such a speculative scheme.

Build Costs

- 13.5 Build costs have risen significantly with much higher rises anticipated in the near future. This is being driven by the shortage of skilled labour together with supply chain problems following Covid-19 and the invasion of Ukraine. The BCIS have warned of further increases.

“Rates for metal works increased around 25%, structural steel works 42% and concrete works by 16%. These categories have many variants, each having different percentage increases. So, if generic increases are used, projects could be incorrectly costed. Errors in the costing process could have a negative impact on an organisations growth.”¹⁸

- 13.6 Due to this combination of pressure, developers and funders are acting with caution and offering no flexibility on projects. They are requiring an increase in profit margins to a minimum of 20% of GDV and contingencies (in order to with market uncertainty and increases in builds costs).¹⁹
- 13.7 Due to the restricted access, the site will also cost more to construct due to the problems with deliveries.

Office Scenario

- 13.8 I have also considered the office market (former B1a Use). Unfortunately, Havant is not perceived as a principal office location in the region. Rents achieved for offices in the area are relatively poor. Recent transactions indicate they less than £20.00 sq ft. This has been confirmed by our commercial property research and discussions with local agents.
- 13.9 The lack of viability is supported by the Local Authority’s own evidence base that states the office market in area is currently unviable.
- 13.10 Office rents being achieved in the market are insufficient to cover the construction of new purpose built offices. Historically, in normal market conditions speculative office development requires a pre-let together with a signed lease to a good covenant strength, at a rent of at least £25.00 sq ft, in advance of any construction. Without this, the rental levels are insufficient to undertake office development. These rental levels and covenants are impossible to achieve in this location.

¹⁸ BCIS Construction Costs Continue to Grow January 2023

¹⁹ BCIS is forecasting a 21% increase in build costs over the next five years

- 13.11 In order to demonstrate the unviability of an office development, we have used the same quantum of development of the residential scheme but on the assumption that it is 100% office use.
- 13.12 Based on this appraisal, should the site be redeveloped for B1(a) purposes, it would create a negative land value of **-£2.8 million**. See **Appendix 2** for a copy of the appraisal. It should be clear that no high land value has been attributed to this appraisal. See **Appendix 3**.

Sensitivity Analysis

- 13.13 We have also included a Sensitivity Analysis based on increase in rents and variation to the base build cost. As you can see from the enclosed analysis, even under the most optimistic scenarios, there is no scope for viable commercial development.

Industrial

- 13.14 If the site was developed for industrial/warehouse purposes, there would be limited demand from occupiers. This is because of the inadequate access through a mews arch. Access to the building is also unsuitable for high volumes of commercial vehicle and noise generated from the use would conflict with nearby residents. Due to the proximity of nearby residential and the small site it would be impossible to construct a building with the pre-requisite eaves height of 7m demanded by modern occupiers. On this basis, we have not undertaken an appraisal.

Other Employment Uses

- 13.15 In line with Local Plan Policy DM3, we have also assessed alternative employment uses covered by Use Class E. This includes nurseries, healthcare and community uses. The rents achieved for these alternative employment uses track those of the industrial market very closely. This is because many of these buildings compete in the same marketplace for accommodation and pay similar rents to that achieved by offices in any location. Due to this, any redevelopment for these alternative purposes would also have a similar outcome to the office appraisal.
- 13.16 We have also considered other uses for community or leisure use. Unfortunately, the Local Authority's own CIL research confirms that these uses do not create a positive land value and are not viable without being subsidised by a large scheme and many other uses such as large residential greenfield development.

14.0 BENEFITS OF THE PROPOSED SCHEME

- 14.1 The proposed development will result in a number of socio-economic benefits which are a Material Consideration. During the construction period, there will

be an immediate boost to the local economy with the purchase of materials and local employment. It is estimated that for every £75,000 of construction cost, one temporary job will be created. For a residential scheme this would be in the region of 30 new jobs.²⁰

- 14.2 The creation of 17 new households in Havant will directly help nearby commercial and retail businesses in the area. According to the ONS the average household income is £29,879, resulting in the scheme having a combined average household income of £1,015,892 per year. The provision of 17 new residential households will have a positive impact on the local economy, especially nearby shops, cafes and public houses.
- 14.3 The household spend will have a multiplier effect of approximately 1.5 times resulting in a total economic multiplier of £2,539,730 to the local economy.²¹
- 14.4 The provision of 17 much needed residential dwellings on a brownfield site will help alleviate pressure on greenfield sites.
- 14.5 The redevelopment of the site would also remove deleterious material including asbestos and would improve the Conservation Area and surrounding buildings.

New Homes Multiplier

- 14.6 The 17 new residential dwellings will also generate Council Tax for the Local Authority together with the New Homes Multiplier. This is a Financial Material Consideration. The New Homes Bonus is paid every year for the first six years and is based on the amount of extra Council Tax for the residential dwelling. The Local Authority is not restricted on how it spends the extra revenue and for a scheme of this nature I would expect it to generate the following revenue.

Amount per dwelling / year	Total Council Revenue Over 6 Years
£1,793.97	£182,985

- 14.7 There will be a material improvement in the living quality for nearby residents of the regeneration of this town centre site.
- 14.8 There is now clear research regarding the economic benefits of delivering a new housing scheme. According to the HBF, the average purchaser moving

²⁰ See "Forecasting the Number of Jobs created Through Construction", published by D Forbes (2012), association of Researchers in Construction Management only using construction cost and excluding fees.

²¹The definition of the Multiplier Effect is an injection of extra income leads to more spending, which creates more income, and so on. The multiplier effect refers to the increase in final income arising from any new injection of spending. The multiplier effect is not open ended and is subject to leakage and the propensity to save in any given economy. Source: Economic Online.

into a new home spends approximately £5,000 within 18 months of moving in. The expenditure includes decoration, consumer goods and furnishings. In total, the scheme will generate £45,000 of new home spend.²²

14.9 Set out below is a summary of the economic benefit of the scheme:

Benefit	Financial Benefit	Job Creation
Construction Period	-	30
Residents Working from Home	-	4.5
New Homes Multiplier	£182,985	
Household Multiplier	£2,539,730	
New Home Expenditure	£85,000	
Total	£2,807,715	

14.10 The proposed change of obsolete commercial buildings to residential would have a clear economic benefit in terms of increased and financial spending for the town centre. Whilst the site currently has approximately 6 full and part time employees working from the premises, these would largely be replaced by residents who could work from home in modern energy efficient buildings. Thus, the change of use would have a negligible effect on the economy as many of the current workers would be replaced by those working from home.

15.0 CONCLUSIONS

15.1 The buildings are over 100 years old and have reached the end of their economic lives. They are suffering considerably from a number of structural defects that reflect their age and poor construction and are obsolete.

15.2 Whilst the units are currently being used by commercial occupiers and there are approximately 6 full and part time members of staff on the site, it is only a matter of time until this use is extinguished due to the aged buildings and the safety implications.

15.3 Due to the age and conditions of the building, they are already non-compliant with Statutory Requirements and should not be occupied. Their continued occupation can only be considered temporary. Consequently, they will contribute nothing in the medium to longer term to the employment section in Havant.

²² See Page BF: The Economic Footprint of UK Housebuilding published in July 2018.

- 15.4 The proposed redevelopment of the site reflects the natural progression and regeneration of this brownfield asset.
- 15.5 According to the Local Authority's Employment Land Review, there is a oversupply of employment land for the planned period. This oversupply will also be further increased if the Dunsbury Park Employment Allocation was included in their calculations. Following the impact of Covid and home working, the employment land requirements should also be downgraded to reflect changes in demographics and home working.
- 15.6 There will be a positive economic benefit to the economy. The increased footfall and spending from new residents will assist nearby businesses especially in the retail sector.
- 15.7 On a national basis, there have been a number of demographic and technological changes which have reduced the need for employment accommodation.
- 15.8 We have also assessed alternative employment uses and have discounted the office market due to the building's poor location and the findings of the Local Authority's own Economic Viability Study which confirmed all speculative office development is unviable in the district. Likewise, due to the restricted road layout and nearby residential properties the site is unsuitable for industrial or warehouse operators. The viability position is supported by development appraisals contained in Section 13.0 of this report.
- 15.9 The buildings detract from nearby properties and impacts on the living conditions of residents. When assessed in the context of central government policy, it can be seen that there are no strong economic reasons to reject this redevelopment proposal.

Appendix 1

Photographs



South Street Havant

UNLOCKING VALUE FROM LAND

STURT & COMPANY LTD, THE COACH HOUSE, UPHAM FARM, UPHAM, HAMPSHIRE. SO32 1JD
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Company No 07990266 VAT No: 132 6808 20



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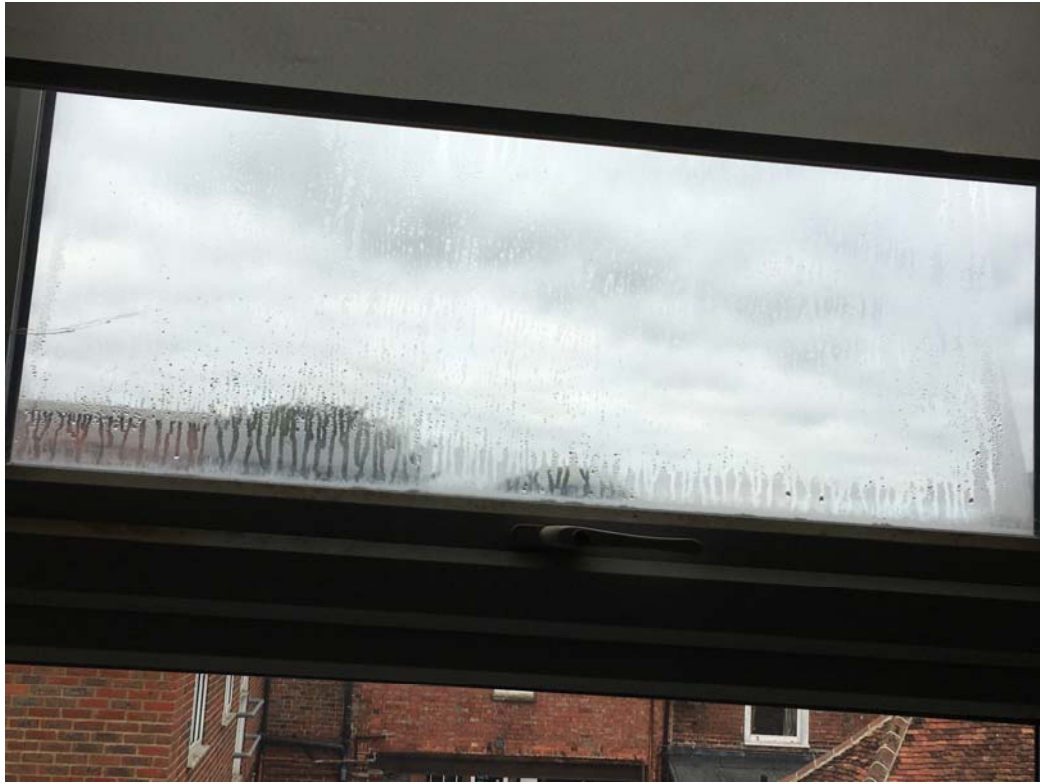
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Failed Crittal windows



Main access to unit



Window requiring replacement



Non-DDA Stairs



Sloping entrance to workshop



Vehicle storage and garaging



Non-DDA compliant access





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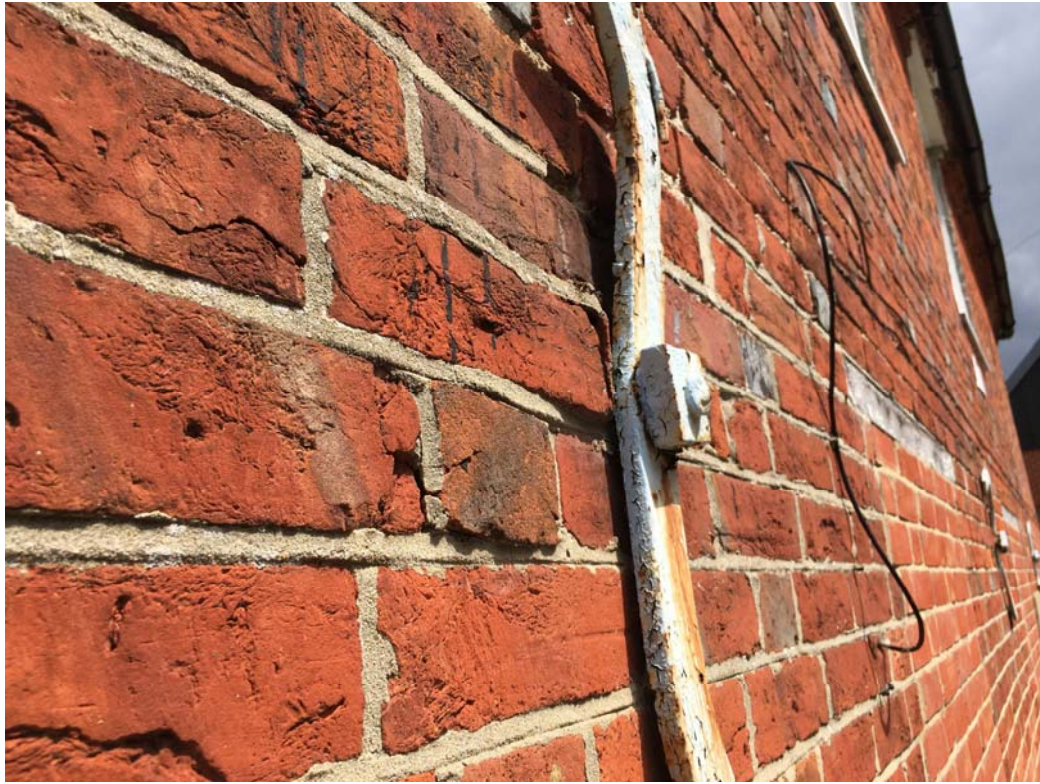
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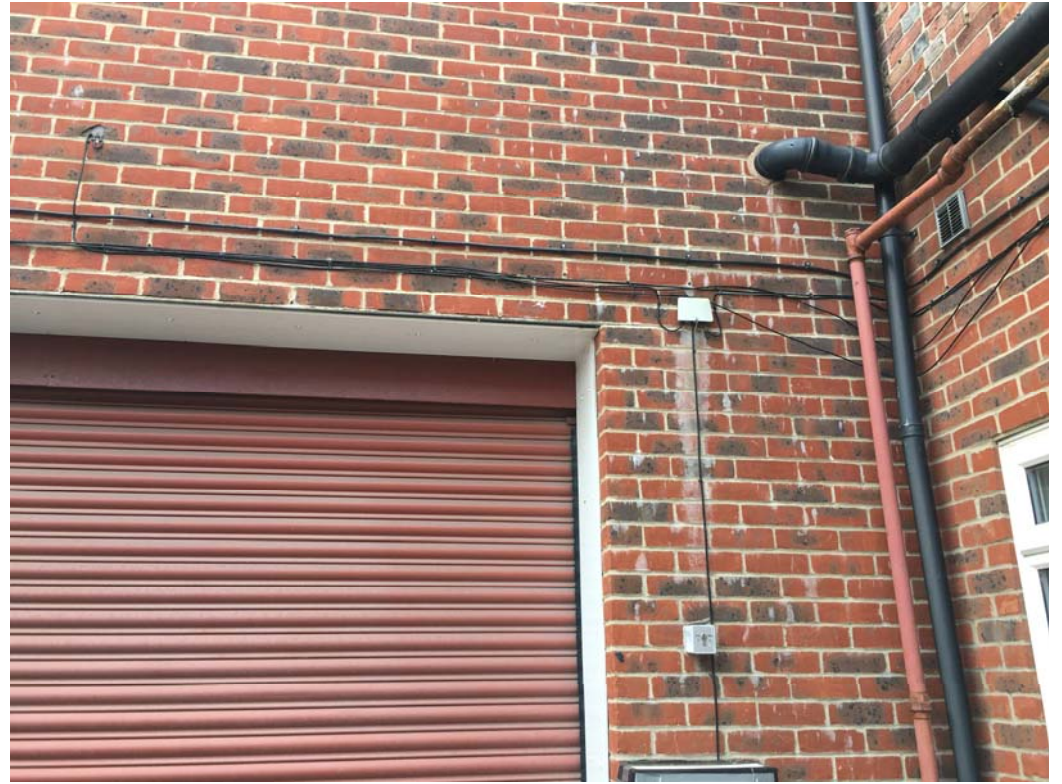
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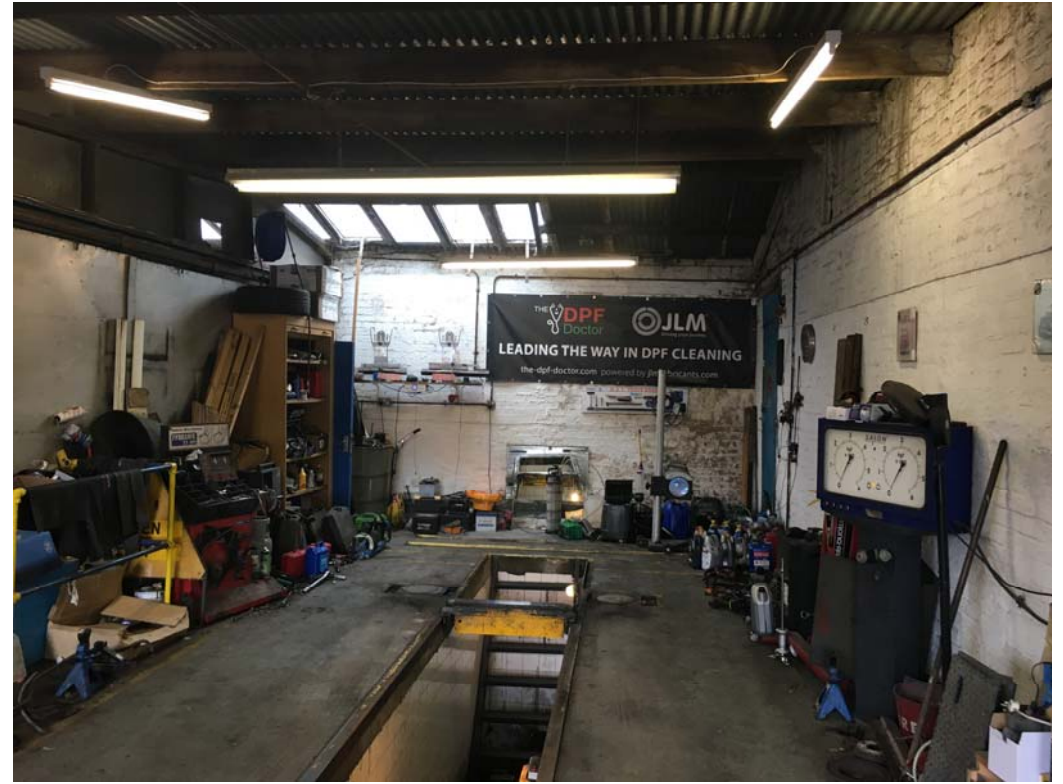
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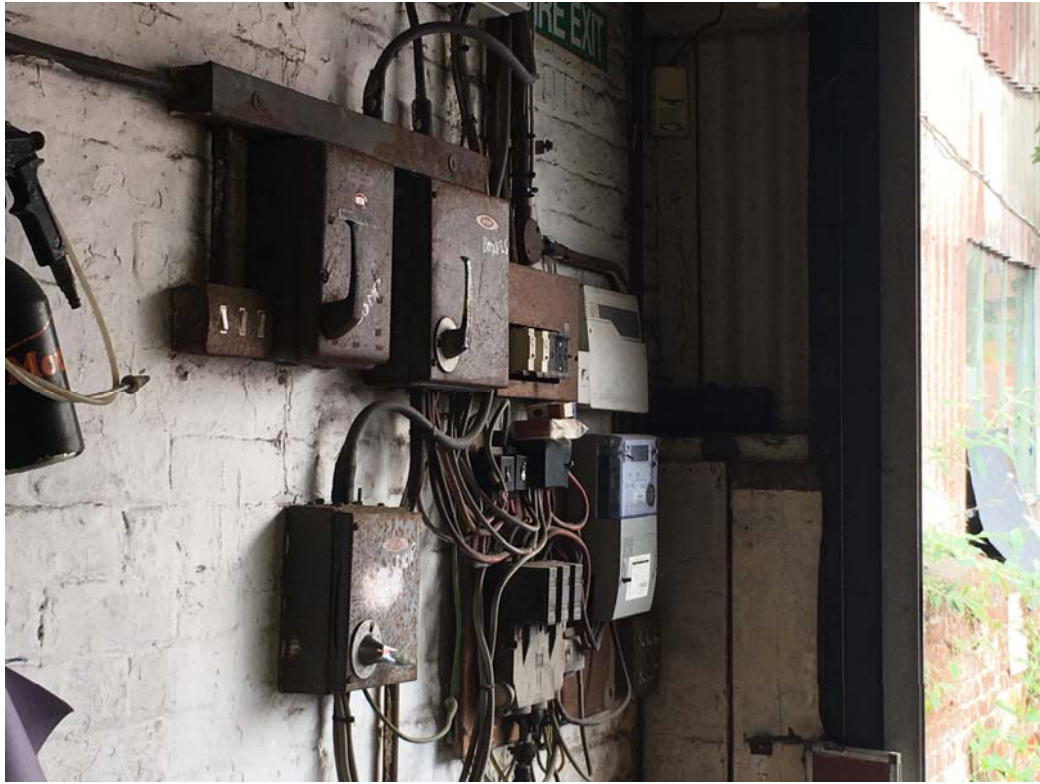
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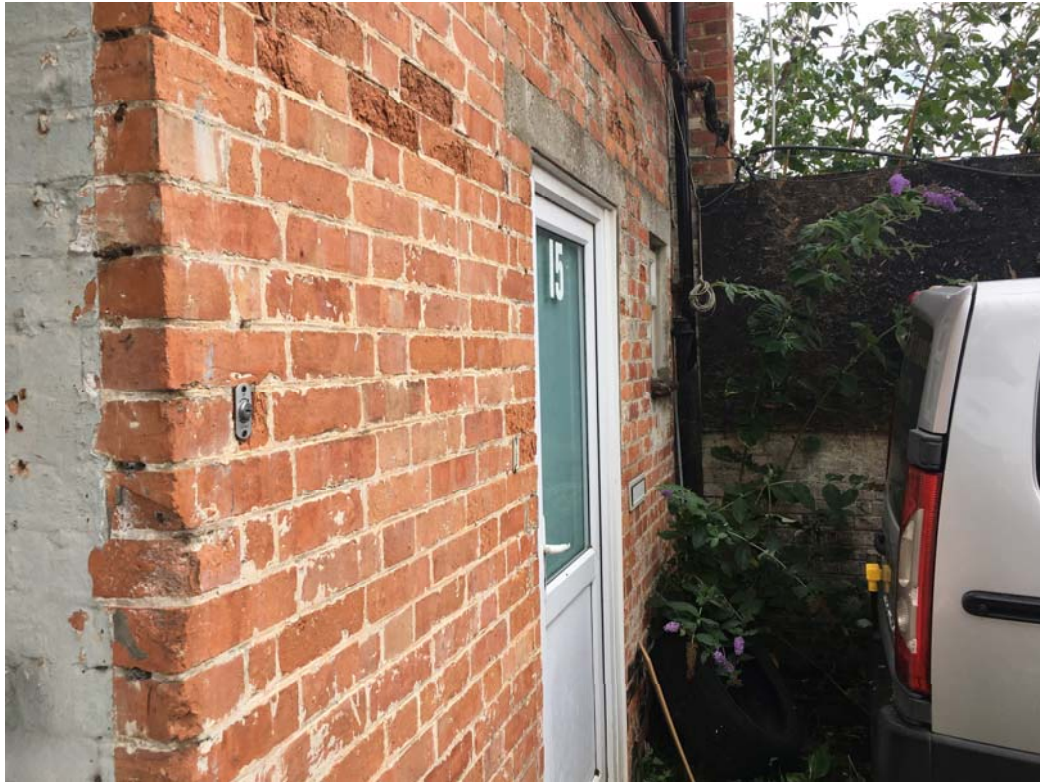
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Appendix 2

Office Appraisal

South Street - New Build Office Scenario Havant

Development Appraisal
Prepared by RAS
Sturt & Co.
31 August 2023

APPRAISAL SUMMARY**STURT & CO.****South Street - New Build Office Scenario
Havant****Appraisal Summary for Phase 1**

Currency in £

REVENUE**Rental Area Summary**

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Offices	1	11,070	18.00	199,253	199,253	199,253

Investment Valuation**Offices**

Market Rent	199,253	YP @	8.5000%	11.7647		
(1yr Rent Free)		PV 1yr @	8.5000%	0.9217	2,160,507	

GROSS DEVELOPMENT VALUE**2,160,507**

Purchaser's Costs			(135,334)			
Effective Purchaser's Costs Rate		6.26%			(135,334)	

NET DEVELOPMENT VALUE**2,025,173****NET REALISATION****2,025,173****OUTLAY****ACQUISITION COSTS**

Residualised Price (Negative land)			(2,812,142)		(2,812,142)	
Legal Fee			7,500			
Town Planning			35,000			
Survey			4,250			
SDLT Stamp Duty			1			
					46,751	

CONSTRUCTION COSTS**Construction**

	ft²	Build Rate ft²	Cost	
Offices	13,837	235.32	3,256,123	3,256,123
Contingency		5.00%	179,087	
Demolition			35,000	
Asbesto Removal and Disposal			50,000	
Statutory/LA			3,750	
				267,837

Other Construction

External Works		10.00%	325,612	
				325,612

PROFESSIONAL FEES

Professional Fees		8.00%	286,539	
				286,539

MARKETING & LETTING

EPCs			750	
Joint Agent Letting Fee		15.00%	29,888	
Letting Legal Fee		10.00%	19,925	
				50,563

DISPOSAL FEES

Sales Agent Fee		1.25%	27,006	
Sales Legal Fee			7,500	

South Street - New Build Office Scenario**Havant**

34,506

FINANCE

Debit Rate 8.750%, Credit Rate 0.000% (Nominal)

Land

620

Construction

136,663

Total Finance Cost

137,283

TOTAL COSTS**1,593,072****PROFIT****432,101****Performance Measures**

Profit on Cost% 27.12%

Profit on GDV% 20.00%

Profit on NDV% 21.34%

Development Yield% (on Rent) 12.51%

Equivalent Yield% (Nominal) 8.50%

Equivalent Yield% (True) 8.97%

IRR% (without Interest) N/A

Rent Cover 2 yrs 2 mths

Profit Erosion (finance rate 8.750) 2 yrs 9 mths

Appendix 3

Sensitivity Analysis

South Street - New Build Office Scenario Havant

Development Appraisal
Prepared by RAS
Sturt & Co.
31 August 2023

South Street - New Build Office Scenario
Havant

Table of Land Cost and Land Cost

Rent: Rate /ft²					
Construction: Rate /ft²	-5.00 /ft²	-2.50 /ft²	0.00 /ft²	+2.50 /ft²	+5.00 /ft²
	13.00 /ft²	15.50 /ft²	18.00 /ft²	20.50 /ft²	23.00 /ft²
-10.000%	£2,812,856	£2,603,724	£2,394,592	£2,185,460	£1,976,327
211.79 /ft²	£2,812,856	£2,603,724	£2,394,592	£2,185,460	£1,976,327
-5.000%	£3,021,632	£2,812,499	£2,603,367	£2,394,235	£2,185,103
223.55 /ft²	£3,021,632	£2,812,499	£2,603,367	£2,394,235	£2,185,103
0.000%	£3,230,407	£3,021,275	£2,812,142	£2,603,010	£2,393,878
235.32 /ft²	£3,230,407	£3,021,275	£2,812,142	£2,603,010	£2,393,878
+5.000%	£3,439,182	£3,230,050	£3,020,917	£2,811,785	£2,602,653
247.09 /ft²	£3,439,182	£3,230,050	£3,020,917	£2,811,785	£2,602,653
+10.000%	£3,647,957	£3,438,825	£3,229,693	£3,020,560	£2,811,428
258.85 /ft²	£3,647,957	£3,438,825	£3,229,693	£3,020,560	£2,811,428

Sensitivity Analysis : Assumptions for Calculation

Rent: Rate /ft²

Original Values are varied in Fixed Steps of £2.50

Heading	Phase	Rate	No. of Steps
Offices	1	£18.00	2.00 Up & Down

Construction: Rate /ft²

Original Values are varied by Steps of 5.000%.

Heading	Phase	Rate	No. of Steps
Offices	1	£235.32	2.00 Up & Down